City of Detroit
CITY COUNCIL

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ANNE MARIE LANGAN
DEPUTY DIRECTOR
(313) 224-1078

TO: Roger Cheek, President
Detroit Retired City Employees Association

FROM: Irvin Corley, Jr., Fiscal Analysis Director IC.

DATE: April 24, 2009

RE: 2009-2010 Budget Analysis

Attached is our analysis regarding your budget request for the upcoming 2009-2010 Fiscal Year.

Your Budget Hearing before Council is scheduled for **Monday, April 27, 2009 at 2:30 p.m.**

Please contact us if you have any questions regarding our analysis.

Thank you for your cooperation in this matter.

IC:jgp:ss

Attachment

cc: Councilmembers
Council Divisions
Auditor General's Office
Joseph Harris, Chief Financial Officer
Pamela Scales, Budget Director
Renee Short, Budget Department
Walter Stampor, Retirement System Manager
Barbara Wise Johnson, Labor Relations
Arese Robinson, Mayor's Office

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Detroit Retired City Employees Association

FY 2009-2010 Budget Analysis by the Fiscal Analysis Division

Detroit Retired City Employees Association (DRCEA) 2009-2010 Proposal and Costs

In the DRCEA's letter to the City Council dated April 9, 2009, the association requests funding for two proposals for a select group of their members. Proposal 1 is a pension improvement request to increase the pension factor for all pre July 1, 1992 retirees. Proposal 2 is an increase to an "Other Post Employment Benefit" (OPEB) associated with the receipt of a pension. The second requested proposal is to have the City pay an additional amount of the medical insurance co-payment for those who retired between July 1, 1994 and June 30, 1998.

Proposal 1 requests the annual pension factor be increased effective July 1, 2009 for all years of service over 10 for pre July 1, 1992 retirees by 0.07%. The current factor for this group is 1.5% for the first ten years of service, and 1.63% for service in excess of ten years. We believe that the current factors already represent an increase to the factors from those in place when the individuals retired. The proposal would increase the 1.6% factor for all years over the first ten years of service to 1.7%.

The DRCEA has provided an actuarial valuation for proposal 1 from the General Retirement System actuarial firm of Gabriel Roeder Smith & Co. that provides an estimate of the cost of the increase using the following actuarial assumptions.

The assume rate of interest is 7.9%
The payroll (of the active employees) was assumed to increase 4.0% per year
Changes in accrued liability were amortized over 15 years

The actuary valuation contained the following highlighted note concerning the cost of the changes.

"Please note that the actuary has just completed an experience study for the 5-year period ending June 30, 2007. Any changes in assumptions adopted by the retirement system as a result of the study will impact the results of the June 30, 2008 valuation and could have an impact on the cost of the changes evaluated in this study."

Should the retirement system adopt any assumption changes, a new actuarial valuation report may be required based on the above note from the actuary.

The cost as determined by the actuary based on current assumptions:

	General Fund	D-DOT	Water	Sewage	Library	Total
Increase in actuarial accrued liabilities – Total Cost	$6,806,765	$1,349,508	$1,202,032	$268,900	$179,919	$9,807,124
With 15 year amortization – 1st year dollars based on valuation payroll	$604,311	$120,579	$104,627	$22,074	$15,805	$867,396

The general fund cost for the first year, the General Fund plus D-DOT portion, would be $724,890, and the actuarial determined cost of the benefit in total is $8,156,273. These costs will be covered directly by the taxpayers of the City of Detroit. The increase in the Water and Sewage funds will impact water and sewage rates in the City of Detroit, and the Library Fund amount will come from Library taxes on citizens.

Proposal 2 requests to continue to expand the supplemental medical insurance co-pay program and cover another four year period of retirees, July 1, 1994 to June 30, 1998. This request means that rather than share the cost of medical insurance on the same basis as active employees, and retirees who retired after June 30, 1998, generally a 80% city, 20% retiree sharing, the Council is being asked to cover an additional 50% of the retiree's cost sharing. As a general example the sharing would be 90% city, 10% retiree.

The concept of the City paying an additional amount of the cost sharing goes back to the cost sharing arrangement prior to the one currently in place that was agreed to two or three years ago. That cost sharing change was intended to improve equity and simplify the cost sharing formula between the city, active employees and retirees. Expansion of the retiree group receiving favorable treatment under the prior formula requires very close scrutiny, as it complicated this latest arrangement, and will reduce the cost savings the City is beginning to realize.

Since this is an increase to an "Other Post Employment Benefit" or OPEB for retirees, not an actual retirement plan payment increase, this is funded on a current basis, rather than on an actuarial basis like the pension itself. In the near future, accounting standards may require that the City begin to fund these other post employment benefits on an actuarial basis rather than a cash basis. In effect, this will create a UAAL for other post employment benefits, just like the basic pension benefit. In addition the total cost of OPEB's will have to be stated in the financial statement and a funding plan requirement for the OPEB's can be expected soon after the reporting requirement.

As an OPEB, the charter requirement of an actuarial valuation report does not apply. The following cost estimate was developed by the DRCEA, total one-year cost $1,072,459, General Fund one-year cost $792,740. It is unclear if the general fund cost includes the portion for the Department of Transportation. A breakdown of the costs to the various City of Detroit funds is required to properly modify the recommended budget.

While the DRCEA assumes the amount will decrease due to mortality, in fact the costs could increase depending on medical coverage rate growth.

These same similar requests were made to the Mayor, and he was unable to find the funding the to increase retirees pension or OPEB's.

The total cost of the request being made, not the first year cost, needs to be heavily considered. The fiscal situation facing the City, and the ability to structurally balance the budget over the next few years remain the challenge. These improvements add costs over multiple years, not just to the proposed budget period.

Attached to this review is a summary of the cost of retiree benefits, not including the actual pension payment from the retirement system, already included in the recommended budget. As this chart indicated the General Fund already includes over $121 million for benefits for retirees, and the total cost for all funds is over $157 million.

Questions for the Retiree Association

1. The cost estimate for Proposal 2 does not require an actuarial valuation and supporting cost information was not provided on the calculations. Will the DRCEA share the calculations that support the request broken down by the various funds of the City of Detroit that should share in the cost?

IC:jgp

Retiree Benefits Costs, excluding UAAL, for General and Police & Fire Retirement System Members
2009-10 Mayor's Recommended Budget

Total City All Funds						
	Benefit	**General**	**Police**	**Fire**	**Uniform Total**	**Grand Total**
603220	Empl Ben-Hosp Gen Retiree	57,278,717				**57,278,717**
603225	Empl Ben-Hosp Police Retiree		70,465,103		70,465,103	**70,465,103**
603230	Empl Ben-Hosp Fire Retiree			21,650,000	21,650,000	**21,650,000**
605210	Eye Care-Retired Civilian	654,538				**654,538**
605225	Eye Care-Uniform Police Retired		833,810		833,810	**833,810**
605230	Eye Care-Fire Retired			294,000	294,000	**294,000**
605640	Dental Retired	3,757,942				**3,757,942**
605645	Dental Retired-Police		2,241,175		2,241,175	**2,241,175**
605650	Dental Retired-Fire			734,000	734,000	**734,000**
	Grand Total	**61,691,197**	**73,540,088**	**22,678,000**	**96,218,088**	**157,909,285**

General Fund Total						
	Benefit	**General**	**Police**	**Fire**	**Uniform Total**	**Grand Total**
603220	Empl Ben-Hosp Gen Retiree	23,922,237				23,922,237
603225	Empl Ben-Hosp Police Retiree		69,704,196		69,704,196	69,704,196
603230	Empl Ben-Hosp Fire Retiree			21,650,000	21,650,000	21,650,000
605210	Eye Care-Retired Civilian	304,313				304,313
605225	Eye Care-Uniform Police Retired		824,807		824,807	824,807
605230	Eye Care-Fire Retired			294,000	294,000	294,000
605640	Dental Retired	1,787,809				1,787,809
605645	Dental Retired-Police		2,216,953		2,216,953	2,216,953
605650	Dental Retired-Fire			734,000	734,000	734,000
	Grand Total	**26,014,359**	**72,745,956**	**22,678,000**	**95,423,956**	**121,438,315**

Detroit Retired City Employees Association
Representing Detroit City Retirees Since 1960

P.O. BOX 40713 • Detroit, MI 48240-0713 • 313-927-0491

April 9, 2009

Honorable City Council
City of Detroit
13th Floor Coleman A. Young Municipal Center
2 Woodward Avenue
Detroit, Michigan 48226

Dear Councilpersons,

Thank you for setting a hearing in your 2009-2010 Budget Preparation Schedule to consider our request for assistance to retired general city employees. As you know, the Detroit Retired City Employees Association goes to bat for our retirees and seeks improvements to help primarily the older retirees who retired with smaller pensions and expensive co-pay medical benefits.

Before getting into the details of this year's request, I want to thank the City Council for improvements made in past budgets, for increases in minimum pensions and for help to those over age 65 with their cost of Medicare B. Our retirees are very appreciative of those improvements.

Retiree pensions are computed on a formula that determines pension amounts in large part based on average earnings and years of service. It can be anticipated that each year average pensions for new retirees would increase somewhat due to average earnings increasing. That is to be expected. When other factors are changed which end up increasing the formula amounts, however, an inequity occurs. Twice in recent years, the formula factor was increased but affected only new retirees, leaving a gap between them and older retirees. These changes occurred in 1992 and in 1998. Thus we now have three different formulas in effect and have created three different groups of retirees based on year retired.

The DRCEA does not begrudge the newer group but seeks to close the gap by bringing up the lower groups in a series of incremental improvements which eventually will bring parity to all retirees. It would be nice if this equity were achieved all at once but due to budget constraints we ask for modest steps over a series of years.

Proposal 1. Increase the Pension Factor for all pre July 1, 1992 Retirees

For 2009-2010 we are requesting that the annual factor be increased from 1.63 to 1.70 for each year of service above ten years, to begin July 1, 2009. The City's actuary, Gabriel, Roeder and Smith, using a fifteen year amortization basis, has estimated the total first year cost at $867,396, of which the General Fund portion would be **$724,890**. This would allow increases to about 5,044 retirees who retired before July 1, 1992, enabling this group to come closer to achieving parity with the middle group, those who retired between July 1, 1992 and June 30, 1998.

For comparison purposes, please note that the pre July 1, 1992 retirees receive average annual pensions of $11,379, compared with those who retired during 2007 who average $20,220 annually. After receiving the increase the older retirees pension would increase an average 2.5% or $280 per year.

Proposal 2. Decrease the monthly Medical co-pay by 50% for those who retired between July 1, 1994 and June 30, 1998

Over many years, the DRCEA has been seeking help for the older retirees with paying their monthly co-pays for health benefits. This has been achieved by reducing the amount of medical co-pay taken from monthly retirement checks by 50 %. Several groups of retirees have benefited from this. Originally it was granted to those who retired prior to 1986, then passed on in several subsequent budget improvements granted over the years so that it now applies to all retirees who retired prior to July 1, 1994. This leaves those who retired between July 1, 1994 and June 30, 1998 still paying the full amount. This four-year group was not included in the rather substantial pension improvement granted 7-1-98. There are 1,176 such retirees who receive the lower pension but still pay the higher medical co-pays.

DRCEA believes that it would be equitable to decrease this groups' medical cost to equal that paid by pre July 1, 1994 retirees. Medical Insurance is not funded out of an actuarial reserve. It is funded by annual appropriations in the budgets of the general fund and self-supporting revenue departments. The first year cost of helping this four-year group totals $1,072,459. Costs are based on actual payroll counts as of December 2008. The general fund cost is **$792,740**, which is the amount we are requesting We note that the amounts can be expected to decrease each year thereafter due to mortality

We appreciate the time you have taken to review these proposals. As you can see we have asked for modest increases, targeting those retirees who have lower pensions or those who pay relatively high medical co-pays And again let me thank you for assistance granted in prior years. We do truly appreciate your help.

Respectfully,

Roger N. Cheek
President

c. Pamela Scales, Budget Director
Irwin Corley, Council Fiscal Analysis Director

DRCEA09request

CITY OF DETROIT GENERAL RETIREMENT SYSTEM
PROPOSED PENSION INCREASE FOR PRE-7/1/92 RETIREES AND BENEFICIARIES
AS OF JUNE 30, 2008

Requested By: Mr. Gerald Fischer, Detroit Retired City Employees Association

Date: January 29, 2009

Submitted By: Norman L. Jones, FSA, EA, MAAA and Judith A. Kermans, EA, MAAA
Gabriel, Roeder, Smith & Company

This report contains an actuarial valuation of a proposed change in benefits for members of the City of Detroit General Retirement System. The actuaries issuing this report are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

The data used in this valuation was that supplied for the regular annual actuarial valuation of the City of Detroit General Retirement System as of June 30, 2008, which is not yet complete. However, we have used a valuation date for this study of June 30, 2008. This means that the results of the supplemental valuations indicate what the June 30, 2008 valuation will show if the proposed benefit changes had been in effect on that date. Supplemental valuations do **not** predict the result of future actuarial valuations. Rather, supplemental valuations give an indication of the probable long-term cost of the **benefit change only** without comment on the complete end result of the future valuations. Actuarial assumptions and methods were consistent with those used in the regular actuarial valuation of the Retirement System on the valuation date, unless otherwise noted. Actuarial assumptions are adopted by the Retirement Board of Trustees. In particular:

- The assumed rate of interest was 7.9%.
- Payroll was assumed to increase 4.0% per year.
- Changes in Accrued Liability were amortized over 15 years.

Please note that the actuary has just completed an experience study for the 5-year period ending June 30, 2007. Any changes in assumptions adopted by the retirement system as a result of the study will impact the results of the June 30, 2008 valuation and could also have an impact on the cost of the changes evaluated in this study. It is our understanding that benefits for current active and terminated vested members would not be affected by the proposed benefit changes. They were excluded from this study. A brief summary of the data, as of June 30, 2008, used in this valuation is presented below.

	Retired Before 7/1/92	
Group	Number	Annual Pensions ($ millions)
General City	3,559	$39.9
D-DOT	710	8.0
Water	557	6.8
Sewage	127	1.6
Library	91	1.1
Total	5,044	57.4

CITY OF DETROIT GENERAL RETIREMENT SYSTEM
PROPOSED PENSION INCREASE FOR PRE-7/1/92 RETIREES AND BENEFICIARIES
AS OF JUNE 30, 2008

PRESENT PROVISIONS: Pensions are based on a pension multiplier graded by service as follows:

1.5% for first 10 years of service
1.63% for service in excess of 10 years

PROPOSED PROVISIONS: Effective 7/1/2009, increase the multiplier for years of service over 10 for pre-July 1, 1992 retirees by 0.07%.

Actuarial Statement

The financial effect of the proposal is shown below:

	General City	D-DOT	Water	Sewage	Library	Total
• Increase in actuarial accrued liabilities	$6,806,765	$1,349,508	$1,202,032	$268,900	$179,919	$9,807,124
• 15 year amortization of liability increase						
- % of covered payroll	0.29%	0.23%	0.19%	0.06%	0.10%	0.24%
- 1st year dollars based on valuation payroll	$ 604,311	$ 120,579	$ 104,627	$ 22,074	$ 15,805	$ 867,396

Comments Regarding the Proposal

The figures shown above are based on the June 30, 2008 actuarial valuation. Please remember that these changes, if adopted, would likely impact the June 30, 2009 valuation. The June 30, 2008 actuarial valuation will reflect any changes adopted as a result of the experience study performed by the actuary for the 5-year period ending June 30, 2009.

Comments

Comment 1 — It was assumed that base pensions upon which future increases are based would not change. Increases in the multiplier higher or lower than 0.07% for service in excess of 10 years would be proportional to the results shown above.

Comment 2 — The calculations are based upon assumptions regarding future events, which may or may not materialize. They are also based upon present and proposed plan provisions that are outlined in the report. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the author of this report prior to relying on information in the report.

Comment 3 — If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the author of the report prior to making such decision.

Comment 4 — This report is intended to describe the financial effect of the proposed plan changes. No statement in this report is intended to be interpreted as a recommendation in favor of the changes, or in opposition to them.

Comment 5 — In the event that more than one plan change is being considered, it is very important to remember that the results of separate actuarial valuations cannot generally be added together to produce a correct estimate of the combined effect of all of the changes. The total can be considerably greater than the sum of the parts due to the interaction of various plan provisions with each other, and with the assumptions that must be used.

Comments (Concluded)

Comment 6 — This report is intended to describe the financial effect of the proposed plan changes on the retirement system. Except as otherwise noted, potential effects on other benefit plans were not considered.

Comment 7 — The reader of this report should keep in mind that actuarial calculations are mathematical estimates based on current data and assumptions about future events (which may or may not materialize). Please note that actuarial calculations can and do vary from one valuation year to the next, sometimes significantly if the group valued is very small (less than 30 lives). As a result, the cost impact of a benefit change may fluctuate over time, as the demographics of the group changes.